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SUBJECT: ICELANDIC CENTRAL BANK HEAD PUBLICLY GOES ON DEFENSIVE

¶1. (SBU) Iceland's Central Bank Chairman of Board of Governors David Oddsson refused to accept blame for the October bank collapse and subsequent economic recession during his appearance on Icelandic State Television's current affairs program "Kastljós" on February 24. Well-prepared and often portraying himself as a victim, Oddsson confronted the interviewer from the start of the program by refuting the assertion that he did not have the trust of the public: Oddsson called a recent poll stating that 90 percent of Icelanders want him to resign as inaccurate. The embattled Central Bank Chairman continually returned to three main themes throughout the interview: 1) he and the Central Bank had repeatedly warned the Haarde administration about the state of the Icelandic banking system; 2) the fault of the collapse lies with the Haarde government, and the banks themselves; and 3) the Central Bank has kept the economy afloat after the crash and he and the institution enjoy the trust of the people and international community.

¶2. (SBU) Oddsson supported his points by quoting passages from several Bank reports warning the government of the impending crisis (but declined to release the documents.) He said that he was confident a full investigation into the cause of the banks crash would exonerate him and the Central Bank. When asked why he does not step down and allow the rebuilding process to fully begin, Oddsson declared that he is still trusted in his position. The interviewer read a list of domestic politicians, economists, and foreign experts who have called for Oddsson's resignation to restore trust in the Icelandic Central Bank; Oddsson responded that those individuals had either a hidden agenda or were not familiar with international economic policy. He called the current Prime Minister's Central Bank reform bill, which restructures the Bank's leadership to eliminate Oddsson's position, "nonsense" and accused the PM of settling an old political score. Oddsson said the Central Bank has kept the economy afloat in the wake of the crash and that it was the Central Bank that foreign creditors trusted to insure transactions. Finally, when asked if he would entertain the idea of re-entering the political arena, Oddsson noted that he had no intention of returning to politics. Speculation in Iceland, however, is that Oddsson was using the interview as a platform to reignite his political career.

¶3. (SBU) Comment: Oddsson's performance on Kastljós was political theater at its most florid, confirming Oddsson sees himself as the last great bulwark standing up to a destructive and incompetent government economic and financial structure. Those close to former PM and departing IP Chair Geir Haarde have marveled at Oddsson's stubborn determination and his disregard for the damage his continued tenure is causing the IP. This was clearly evident in his willingness to publically blame Haarde and his government for Iceland's economic collapse - and this despite the fact that Haarde's refusal to fire Oddsson, his old friend and mentor, was one of the chief reasons for the fall of the previous government. Oddsson is correct in his assessment that most of the provisions in the proposed new Central Bank law are directed at him personally. What he did not acknowledge is that his continued presence at the Bank has become a severe distraction as the economic crisis deepens.

Oddsson is now such a polarizing figure that we doubt any government can concentrate on Iceland's reconstruction while he remains at the Central Bank. Oddsson left no one in doubt last night that he will continue to run rings around the interim government as he fights off attempts to separate him from the job. Not for nothing was Oddsson the most charismatic, crafty, and resourceful politician in Iceland's recent history. The question is whether that old magic will work with a battered people looking for answers as to how their economy fell so far so swiftly, and hungry for new political leadership able to point the way out of the catastrophe.

VAN VOORST